SLOTTING ALLOWANCES IN RETAIL MARKETING: DEVELOPMENTS IN THE UNITED STATES AND HONG KONG

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ABSTRACT

Slotting allowances are upfront cash payments, cash discounts, free case goods, and placement allowances paid by marketers to retailers for new product introduction. They are part of the "barriers" to new product entry which have developed from trade allowances. This paper traces their evolution from being part of informal trade allowances to being formalized requirements. A comparison is made between the practices in the U.S. and those in Hong Kong. The scope of the study includes the key issues in slotting allowances: the extent of the practice, its implications, and the effects of slotting allowances on the power structure as between marketers and retailers; the factors influencing new product introduction; and what marketers and retailers could do to improve on the situation. This paper includes both an extensive literature review and personal interviews with local businessmen in the packaged grocery business. A set of new product application forms used in Hong Kong is included for comparison.

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INTRODUCTION

A typical supermarket in the United States carried about 5,800 items in 1958[1]; 6,900 items in 1964; 8,000 items in 1975; 12,000 in 1985[2]; and 26,000 in 1989[3]. Some of this increase has occurred through expansion into categories not previously handled by supermarkets, e.g. general merchandise and health and beauty aids. But a good share of the increase has come about in the expansion of warehoused grocery products.

Reasons Behind Grocery Product Expansion

Many companies feel the need for a broader product line in order to spread the high costs of advertising and promotion among more brands. There is often a desire to reduce direct selling costs by allocating such costs to more products. Frequently manufacturers diversify their

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[1]Buzzell, Robert D. and Nourse, Robert E.M., Product Innovation in Food Processing, Boston: Division of Research, Harvard Business School, 1967.

[2]Cadwell, Franchellie. "Healthy Product Families Need Planning". Advertising Age, (7 January 1985):28.

[3]Therrien, Lois. "Want Shelf Space at the Supermarket? Ante Up". Business Week, (7 August 1989):46, 47.

product line to avoid dependence on a limited line which might prove vulnerable to competition. There are competitive pressures to look for natural extensions to an existing line, in the form of sizes, varieties, packages, and the like.

New products also afford the retailer an opportunity to offer the consumer something different, a change from the ordinary. In this respect they represent merchandising opportunities to interest and excite consumers, to add to selection and, hopefully, to add to shopper interest in a particular store or chain. Many new products are also heavily promoted, giving the retailer the chance to tie in at a low promotional expense.

Obstacles to New Product Introduction

But formally or informally, each supermarket makes decisions and policies governing the assortment to be offered in terms of total number of items, number of items and space to be allocated to each category of merchandise, and emphasis on brands, e.g. national brands versus private brands, within categories. These decisions govern, directly or indirectly, the number of new items that can be accepted. Supermarkets, then, need to reject the great majority of new items presented if they are to remain within reasonable limits of their assortment and merchandising policies. Any other alternative would result in a mushrooming of assortments or in an inordinately high turnover of items in the assortment.

The problem of continually adjusting assortments within a framework of merchandising policies is made more complicated by the costs involved in making changes. Each new item that is accepted by the typical supermarket must be processed through clerical and perhaps electronic data processing channels, assigned warehouse space, listed in order books, and set up in the stores by rearrrangement of shelf space. There are costs involved in each of these steps, and many similar costs are incurred in dropping items with sometimes the additional problem of disposing of dated inventory.

Supermarkets, on the average, were about 10,000 square feet in size in 1946, and about 17,100 square feet in 1965. But the average size of a newly built supermarket was 43,800 square feet in 1986. In other words, retailers have already been expanding the size of their store in order to cope with the avalanche of new products. Expansion costs money. The entertaining of new item presentations by supermarket buyers also presents a problem in itself. Sales presentations take time; there also must be additional evaluation and deliberation time on the part of buyers to arrive at a decision on each item offered. Adequate staffing to handle all the new product decisions can be a costly problem.

Differential Treatment among Manufacturers

There appears to be a plethora of new product activity in the grocery manufacturing industry despite a high degree of failure at the introductory stage. The failure rate appears higher for grocery products than the general mortality rates as a result of trade rejection and other reasons[4]. However, the problem of a high rate of trade rejection of new grocery products is not of the same magnitude for all marketers. While there is little data to support generalizations, general observation and literature review have led to the conclusion that the large companies in the grocery and packaged goods business with lines of established products and with heavy advertising have the least difficulty in securing trade acceptance. (In the United States, probably the greatest exception to this generalization is the attempt of these large companies to gain acceptance of additional sizes and flavours of existing brands in distribution.) Although there are exceptions, smaller manufacturers, especially those with relatively few items in supermarket distribution or with items that are in relatively small markets and receive little promotional support, appear to have greater difficulty gaining acceptance.

Before the 1980s, marketers paid for shelf space with trade allowances such as cash discounts, free goods, and early-buying discounts. To cope with the overwhelming number of new products that kept coming during the 80s, retailers began imposing fees called slotting allowances,

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[4]Buzzell, Robert D. and Nourse, Robert E.M., Product Innovation in Food Processing, Boston: Division of Research, Harvard Business School, 1967.

also known as stocking allowances or introductory allowances: the admission fee demanded of marketers who wish to squeeze their products onto the crowded supermarket shelves. It may be an effective mechanism for retailers in "rationing" valuable store space. Although such charges have not been standardized, almost all major supermarket chains in the United States are now demanding them.

Objectives of This Paper

It is the objective of this paper to trace the development, the implications, and the possible solutions for marketers to the problem of slotting allowances charged by retailers for new product introductions. Do slotting allowances result in higher cost before the products reach the store shelves? Do they hamper distribution? Do they involve large sums? How does this phenomenon affect retailers and consumers? Do retailers have more say now? Do consumers have less selection? Does it cost the consumer more?

The investigation into the situation in the United States will be covered through literature review. The investigation into the extent of this very issue in Hong Kong will be covered through interviews with marketers, local hongs, and retailers. Since very little has been written locally on the subject, the second part of the report will be mainly primary data.

CHAPTER II

LITERATURE REVIEW

Trade allowances have always been a form of promotion and include trade discounts, volume discounts, free merchandise, and advertising allowances. But as the volume of new product introduction gyrates out of proportion in relation to the amount of shelf space available at the store level, slotting allowances, an upfront cash payment, have been introduced by retailers. This section traces the development of slotting allowances in the United States, discusses its implications, and attempts to look for solutions.

The New Product Flurry

Robert Buzzell et al quoted a typical supermarket in 1958 as carrying 5,800 items, and in 1964 as carrying about 6,900 items in their book entitled "Product Innovation in Food Processing". Franchellie Cadwell in her 1985 article entitled "Healthy Product Families need Planning" reported the average supermarket carried 8,000 products in 1975 and 12,000 in 1985. Lois Therrien in her 1989 article entitled "Want Shelf Space at the Supermarket? Ante up" noted 13,000 as the number of items stocked by a typical supermarket in 1979, and 26,000 for 1989. Although there seems to be a contradiction between the Cadwell figures and the Therrien figures around the 1979 to 1985 period, the general trend is still one of escalation. Cadwell said the same store sees more than 1,200 new products a year and has shelf space to accept less than 25% of them. From 1964 to 1980, an average of 900 new products a year were introduced. Laurie Freeman in a 1985 article entitled "Battle for Shelf Space" quoted there were three new products being introduced each day in 1980, but as many as seven in 1985 (i.e. just over 1,000 a year in 1980 and over 2,500 in 1985). Spencer Hapoienu in a 1988 article "Supermarketing's New Frontier" said 1,000 new products were introduced in 1976, compared to over 5,000 in 1987. It is not difficult to see that persuading retail buyers to place a new product onto the supermarket shelves was becoming a big hurdle.

The greatest growth has occurred in the freezer case. According to Peter Rogers of Nabisco Brands Inc., 15% of the volume results from products that did not exist in 1980; frozen prepared food was up 22% and frozen breakfast foods was up 18% in 1988[5]. In the same year, Magiera et al reported a 15% sales growth in frozen novelty items for three straight years, encouraging marketers to stock supermarket freezers with new products. According to their article "Frozen Novelties plan New-Products Blizzard", in 1988 there were 2,100 frozen novelty items on the market

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[5]"Food Marketer: Slow the 'Frenetic' Pace of New Product Introductions". Marketing News, (28 March 1988): 17.

but the average supermarket freezer has space for only 100 at the most.

Unfortunately, not all new products reap profits. Tim Davis reported on the eight reasons new products die as found by Comart Consulting Group, New York in his article "Retailer-manufacturer partnership can ease pain of slotting allowances":

1) Market misjudgment

The most common errors in misjudging the market are failure to listen to consumers and to understand consumption behaviour, bad introductory timing, and entering a market too far removed from the company's core business strength.

2) Position poisoning

It may be a product designed to do one thing but positioned as something entirely different, or a fuzzy idea that does not provide the consumer with a clear position of what they stand for, or an insignificant product that is not compelling.

3) Pathological products

A result of incomplete product testing that cannot be covered up by good positioning and market judgment.

4) Extension psychosis

Line extensions look safe but the failure rate of line extension is 10 times that of real innovative new products.

5) Competitive delusion

A result of marketers not planning for the competitor's retaliation against their new products.

6) Fatal Frugality

Underspending can kill a good product that might otherwise have prospered. Without enough advertising and promotion, there is not sufficient trial.

7) Obsessive objectivity

A result of marketers falling in love with his own creation and becoming unrealistic.

8) Timetable tyranny

The act of launching new products before they are ready just to meet deadlines.

The Birth of Slotting Allowances

Caught between the staggering number of new products and the rising handling costs, retailers and wholesalers reevaluated their buying policies. Freeman reported that one result of this scrutiny is the demand for slotting allowances from marketers. Slotting allowances cover up-front payment, cash discounts and free case goods as well as placement allowances for new product introduction. Placement allowances usually cover the cost of entering new product information into a store's computer and placing the product in the warehouse and on store shelves. Although such placement practices have existed for years, buyers have become more vocal. Retailers consider such payments as a "good faith commitment" to keep the new product for a minimum time before evaluating its value. The period ranges from 30 days to a year.

Cost Center or Profit Center

Lois Therrien said that at first retailers simply hoped to recoup some of their costs and discourage frivolous new products. But the eagerness with which many large companies complied taught retailers a lesson: their shelf space is valuable real estate. As a result, stores increasingly are looking to make money not just by selling products to consumers but by "renting" shelf space to manufacturers. Freeman et al in a 1987 article entitled "Grocer Fee hampers New-Product Launches" concluded that slotting allowances could represent as much as one-third or even one-half of the US$19 billion expected to be spent on trade promotion in that year. Trade promotion is an expenditure that has more than tripled from the US$6 billion spent in 1980.

Payment Upfront or In Disguise

In 1984, Kroger Co., the second largest publicly held grocery chain in the U.S., became the first chain to state officially that it would ask marketers for a slotting allowance on new products in the chain's 103 Houston stores. The upfront price was US$15.75 per new product per store. Freeman wrote that Kroger apparently did not ask major marketers to increase their promotional allowances at the time, although one buyer said brokers and smaller marketers were paying higher placement allowances. At that time, other grocery chains had not formally stated slotting allowance policies, although one buyer said many grocers had demanded new product incentives for years, but had never put these policies on paper. With perhaps the exception of Kroger mentioned above, no retailer admitted to a published schedule of required or recommended slotting allowances, although the retailers acknowledged that manufacturers informally knew what was expected.

Freeman et al said that slotting allowances per se did not exist eight years ago (i.e. prior to 1979), in agreement with Spencer Hapoienu's timeframe as mentioned in "Product Glut Sparks Struggle for Shelf Space". Hapoienu feels that slotting allowances are a direct result of massive new product introductions. Before, marketers "paid" for shelf space with trade allowances such as cash discounts, free products, and early-buying discounts.

An Evolution from Trade Allowances

Richard Edel in his 1986 article entitled "Trade Price Discounts holding Hostages" added that trade allowances sometimes can be considered part of the basic buying apparatus because some retailers actually say, "Don't talk to me unless it's on deal". In exchange for more retailer attention, manufacturers also contribute advertising allowwances for space in weekly newspaper ads, additional funds for TV and radio spots, and give discounts for special pricing and positioning with point-of-sale displays. From the retailer's point of view, just getting the best possible deal from a manufacturer would allow him to remain price competitive.

Ed Fitch, in a 1985 article entitled "Shouldering the Bulk of Budgets and Bad Image", interviewed consultants and insiders in the retail industry and found that many are of the opinion that manufacturers cut their costs to the trade during the recession from 1978 to 1981, and slotting allowances may be the legacy many manufacturers are still trying to dig themselves out of. He wrote that "the situation in some package goods product categories has gone so far out of hand that 80% to 85% of the merchandise sold to retailers was bought on a trade deal in 1985".

The Extent of the Practice

According to Julie L. Erickson's 1987 article "Stores Juggle Space, Specialties", the average after-tax store profit fell to 1.12% in 1986, and supermarket operators are more cautious than ever about stocking their shelves. Almost all major supermarket chains are now demanding that manufacturers pay slotting allowances and an array of other charges.

The Amount Involved

Freeman et al quoted some Northeastern grocery buyers as requiring a US$15,000 to $40,000 slotting allowance on top of the more traditional trade allowances for each new product introduction. In general, the payment can be as small as US$300 for a single new item in a small independent grocer with 10 to 15 stores, or as much as US$50,000 for six to 10 new products in a large multistate chain, or up to US$200,000 for multiproduct lines. A West Coast buyer also said the slotting allowances at his chain have more than doubled from the previous year in 1987[6]. An example was American Beauty pasta's slotting allowance of US$750 an item for a 26-item line ($19,500 plus to individual store) and Borden's Creamettes (its competitor)

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[6]Freeman, Laurie and Meyers, Janet. "Grocer 'Fee' Hampers New-Product Launches". Advertising Age, (4 July 1988): 1, 35.

US$10,000 slotting allowance for its six-item line[7]. At B. Green Inc., a Baltimore buying service for independent and small grocery chains, the allowances has risen steadily from US$300 to $500 in 1987 and was expected to reach US$1,000 by 1988[8].

The VP-purchasing for Publix Supermarkets in Florida said in 1987 that they had no set fee for new products but do prefer cash to free merchandise. A spokeswoman for Lucky Stores in California said the chain did not have a slotting policy per se but if an allowance was made available by a manufacturer to other retailers, they would demand it too.

The Type of Company and The Form of Payment Involved

Freeman et al reported cake mixes, cereals, frozen dinners, dog food, ice cream novelties, pasta and pickles as categories bidding highest for shelf space although some package-goods giants usually avoid paying slotting allowances by "using their reputation of backing their introductions with multimillion-dollar consumer campaigns that help build demand". Nonetheless, a former Procter & Gamble Co. beverage brand manager said the company had to pay a slotting allowance as long ago as 1978 to introduce its Folgers coffee to the East Coast. A P&G spokesman, on the

[7]ibid

[8]Ibid

other hand, said the company does not pay "slotting allowances", only "introductory product allowances" as recognition that grocers have handling costs. In other words, nomenclature and definition of slotting allowances are not necessarily standardized. To complicate the issue further, retailers say an upfront payment is not always demanded, although they often do get an equivalant value from non-cash allowances, including gifts of nominal value that are presented at appropriate times (such as Christmas), free "sample" cases, and write-offs as "damaged goods".

In addition to slotting allowances, there are also fees for special displays, product sampling in the stores, and promotions such as ads in grocery circulars. Grocers are also demanding discounts in return for large orders. Manufacturers are paying more and more to get better displays and bigger promotions. Lois Therrien said there is even some talk of an annual renewal fee to stay on the shelf and industry sources say some supermarket buyers have begun charging hundreds of dollars just to listen to a sales pitch for a new item, although no one admits to imposing or paying such a fee.

The Controversy Involved in Failure Fee

In April 1989 J.M. Jones Co., a wholesaling unit of Super Valu Stores Inc. that supplies goods to small food chains, announced that it would impose a failure fee of US$2,000 when it pulls from its warehouses a flop which does not meet a minimum sales target within three months[9]. According to Julie L. Erickson in the 1989 article "Food Marketers Scorch Wholesaler's "Failure Fee ", some food executives were bothered that the Jones policy and other individual requests were working against marketers' desires to implement national trade policies which comply with the Robinson-Patman Act.

One spokesman said that retailers are saying "treat us all the same" on the one hand, and "give me my own special program" on the other. He also felt that the major chains were forcing manufacturers to look at alternate channels of distribution. Another spokesman said that they would not support the J.M. Jones Co.'s failure fee policy because they would be putting J.M. Jones at a competitive advantage over other retailers when, under the Robinson-Patman Act, they need to offer the same deal to each competitor in the market. Still another marketer seemed resigned to the policy and said it is their job to negotiate their way through the tunnels. Perhaps this controversy stems from different interpretation of the Robinson-Patman Act and different powers of negotiation.

Campbell Soup Co. launched a voluntary failure fee in August 1989 as a guarantee that each new item would achieve certain sales after six months, even though the president of Campbell Soup Co. himself said that 80% of new products

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[9] Therrien, Lois. "Want Shelf Space at the Supermarket? Ante Up". Business Week, (7 August 1989):46.

which enter the marketplace will fail. He said that an average of 1.8 million new items are stocked daily on store shelves and the odds are 200 to 1 against any of them surviving, adding that only 4% of all new products reach the US$20 million sales level and a mere 0.5% bring in US$100 million[10].

It is noteworthy that while retailers attempt to negotiate for higher placement fees on the one hand, most admit they would not refuse to take a desirable new item, because no store wants to be without the latest new item and no one wants to drive customers away by not carrying the desired product.

Beyond Supermarkets

Shelf space is not only a valuable asset in supermarkets, although those are the major centres of contention. Alan Radding, in a 1989 article entitled "Egghead Loads Up on Software Slotting" reports a form of slotting allowances that has hit computer stores. Egghead Discount Software, a chain of about 195 stores, has teamed with the Computer Group to sell space on special display racks in its stores. The Computer Group markets the rack slots, subject to Egghead approval, and ships each month's programs to the stores. The program began in spring 1989 and is due to be rolled out nationally to a variety of independent and chain stores. The promotion gives a new soft-

[10]"Most New Products Start with a Bang, End with a Bomb". Marketing News, (27 March 1987):36.

ware product 30 days to prove itself and win a regular place on Egghead's shelves. Industry source said software marketers pay US$4,500 to the Computer Group for exposure on a special rack and provide Egghead with its usual discount.

Implications of the Problem

Tim Davis in his 1989 article "Retailer-Manufacturer Partnership can Ease Pain of Slotting Allowances" recorded the words of the president of the Consumer Health Care Division of Miles Inc. who said that "everybody loses in a system where a large part of new product expenses must be allocated to retail distribution".

The Effect of Slotting Allowances on All Concerned

According to Miles Inc. the companies with the most money would get distribution, regardless of product quality or program creativity. The smaller companies would be forced to cut back their marketing efforts or research and development, reducing their chances for new product success. Some companies which cannot afford the charge will be severely limited in distribution. Even those which can afford the charges will need bigger budgets, higher expenses, and this will ultimately result in a more expensive product. With slotting allowances, the marketer loses, but the retailers also lose in that they could be missing out on some new products with excellent potential. The consumer loses because product selection will be limited to more standard and well-known products. Furthermore, it is the consumer who pays for the added expense.

The Outcome of Consolidation and Information Control

Brent H. Feigner in his 1989 article "Retailers Grab Power, Control Marketplace" stated that the relationship between marketer and retailer has always been a tug-of-war pitting the marketer's need for shelf space and distribution against the retailer's need to remain competitive in its inventory assortments and one-stop appeal to its consumers. Today the chains are bigger and more powerful and have access to information they did not have before. Refusal of a handful of retailers to carry a given product can block national distribution. This new situation causes marketers to hand over the slotting allowances as demanded. The pressure is now on manufacturers to properly test their products before pushing them out to the marketplace in order to prove their worthiness for shelf space and to avoid failure fees.

Moreover, information about particular items captured at the electronic point-of-sale terminals can be used in making decisions about them. Implementation of direct product profitability analysis (DPP) has helped to determine the profitability of each item and is affecting shelf-space allocation. DPP allocates all the retailer's costs, item by item, to every item on the shelf to determine the net profit of each. Hapoienu said "retailers obviously are not going to pull sugar from the shelves, but it seems reasonable that they will take a close look at how much space is devoted to sugar, which brands perform better, and which sizes perform better". Retailers are also reducing the space devoted to all traditional packaged items to make room for faster growing, higher margin categories such as health and beauty aids, housewares, greeting cards, and flowers. As a result, even though the number of new products increased tenfold, store space for packaged goods is probably flat.

Factors Influencing New Product Decisions

According to Julie L. Erickson, the big trend is the emergence of the retailer as a controlling factor in the success or failure of new products.

Management Information at the Retail Level

In "Stores Juggle Space, Specialties", Julie L. Erickson reiterates that retailers are now more sophisticated in reading product movement and have more control over the situation. He is now more demanding in requirements for accepting a product. In addition, large retailers are using market research to better know their customer base in each region and tailoring services and promotions. A 1987 study shows that one-third of supermarkets have created departments for specific groups of customers[11].

The Product and Its Company

Laurie Freeman reported on a sampling of retailer opinion on what determines whether a new product is given shelf space, in her 1988 article entitled "Beyond Slotting". Slotting allowances were cited by all retailers to be a determining factor but none ranked the practice as the most significant. Retailers place greater value on whether products fit their stores' marketing plans, potential growth of the category, projected sales and profitability of the product, the marketer's history on new-product introductions, market research data, previous contact with the marketer, and the amount of advertising and promotional support. All retailers surveyed cited sufficient manufacturer support as important to acceptance. Nonetheless, there is a "let's make a deal" attitude towards slotting allowances, and retailers consider such payments as compensation for incurred costs and a "good faith commitment".

The Customer's Needs

Food marketers and retailers juggle cost, quality and variety to satisfy the customers. And no matter what they do in the area of slotting allowances, satisfy their customers they must. Julie L. Erickson reported that despite

[11]Erickson, Julie Liesse. "Stores Juggle Space, Specialties". Advertising Age, (12 October 1987):S2.

devoting more space to upscale services, non-foods and premium-price items, supermarket operators realize they also need to maintain low-price dry groceries. According to a 1986-87 study by a Columbus, Ohio-based market research company in retail industries, 34% of consumers said location is a concern when selecting a supermarket. 33% cited price as a factor, and 25% listed product selection. Quality and service were at 22% and 16% respectively.

Furthermore, according to the president of Campbell Soup Co., "today's food buyers want food that is portion-controlled, easy to prepare, or ready-to-eat and require little or no clean-up. They also want food that is fresher in appearance, texture, and taste". In other words, products that fit into these catogories are more likely to be accepted by customers, and therefore retailers.

Alternative Courses of Actions to Consider

The slotting allowances which were once practiced only in the Northeastern grocery chains in the U.S. have spread nationwide. Because the major manufacturers with solid track records are not paying much, if at all, and the second-tier or regional companies are shouldering the brunt, many small manufacturers question the legality and ethics of the fees, claiming they stifle new products, limit their ability to expand, and cost consumers money. The Robinson-Patman Act of 1936 prohibits price discrimination against goods of like grade and quality but it has not been determined that slotting allowances discriminate against goods in a class. An attorney with the Federal Trade Commission (FTC) stated that as long as the payment is charged to all warehouse customers on a non-discriminatory basis, it may not violate the act[12].

Assuming that slotting allowances were allowed, and that retailers charge such allowances to reduce their risks, is there anything else that marketers or retailers can do to get at the root problem of reducing risks or improving profitability per floor area while continuing to generate new products?

Government Regulation

The FTC is investigating retail slotting allowances. According to Freeman et al in their article "FTC centers its sights on slotting allowances", the FTC is doing a research paper on the issue and is expected to propose revising its advertising allowance guidelines to address the issue of slotting. Freeman et al feel that this is one form of government regulation that many marketers would welcome because "nobody dares to be the first company to stop paying slotting allowances" and are awaiting a third party to speak up on their behalf. Yet Hapoienu doubts whether any manufacturer would welcome a uniform fee; he believes they would rather take their chances.

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[12]"Small Companies Protest Slotting Allowances", Marketing News, (16 January 1989): 2.

Manufacturer-Retailer Settlement

Freeman et al in another article entitled "Study Targets Slotting" reported the U.S.'s top grocery-retail and manufacturing trade groups as aiming to solve the slotting allowance problem, beginning with a nationwide study. A goal of some food marketers is to set standards for these fees but the issue is so contentious that industry insiders are doubtful the study will yield a solution to the problem. In accord with Hapoienu mentioned earlier, a spokesman feels that most manufacturers would rather take their chances than accept a uniform fee.

Venture into Other Channels

Lois Therrien cited several alternatives to the traditional supermarkets in her article "Want Shelf Space at the Supermarket? Ante Up". A popcorn marketer started by selling his new popcorn to mom-and-pop stores and small chains that did not ask for fees. The popcorn outsold competing snacks and the supermarkets began waiving or reducing their charges. My Own Meals Inc. started by taking phone and mail orders for its single-serving children's meals and used the revenues from these sales to help pay the slotting fees of big grocery chains. Marketers, as they always have, need to be innovative in discovering new distribution channels.

Innovation in Packaging

Another thing that marketers may consider is to bear the retail store in mind when they design the packaging of a new product. It is becoming very important not to create packaging that takes up more space than is necessary. A small packet is much more likely to be accepted by the retailers than a bulky one. Judann Dagnoli cited Lipton-Wyler's FruitSlush as an item that seeks to avoid the crowded freezer in her article entitled "Lipton to Push New FruitSlush". It is a fruit juice slush that is not frozen until it reaches the home freezer, keeping it on dry-grocery shelves in the store and out of the overcrowded supermarket freezer but not out of sales.

According to another article "Responding to the Changing Retail Store", the current trend toward warehouse stores has produced a demand for packaging that provides information previously obtained from a store clerk. Many of these packages also serve as self-shelves, eliminating the cost of labour for stacking. The demand for corrugated boxes with preprinted liners has also increased significantly. Retailers are much more likely to accept a product that saves on labour. Many marketers have already reduced the size and weight of their packages.

Putting more thought into package design not only facilitates acceptance of the product by retailers, it also increases the chances of sales, which helps to pay for the initial slotting allowances. Vartan et al in their 1987 article "Winning the Supermarket Wars: Packaging as a Weapon" wrote that packaging can play a crucial role in determining what is bought because over half of the purchases made are not planned in advance. For example, Green Giant products are easily recognizable in the freezer through its bold colour system that gives a "billboard effect". Marketers, then, are to think of how the product will be presented in the store when they are determining how a package is designed.

Exercise Family Planning

In "Healthy Product Families Need Planning", Franchellie Cadwell said marketers need birth control to prevent the birth of weak new products. Cadwell said "line extensions are not to be used to save a weak parent but are to be used to keep the family name young and competitive". Family planning means spacing offspring so each has time to grow before the next one comes along. Family planning also means not expecting one offspring to support another but expecting each to be self-sufficient. Line extension offspring are to have a family resemblance but be what its parents could not be.

Return to Pull Marketing

Instead of trying to push a new product into the doors of retailers, marketers may revert back to the "pull strategy". In "Shouldering the Bulk of Budgets and Bad Image", Ed Fitch reported on the opinion of a management consultant. The recommendation was to return to a "pull" marketing strategy where promotions work in concert with advertising and marketing strategies to entice customers into stores to request a brand. Coupons and discounts are used to promote trial and force distribution. Advertising is used to pull the product through the channels. Price discounts may be channeled into price promotion such as premiums and sweepstakes, which are related to the brand's attributes. Marketers may consider shifting from coupons to rebates to event promotion.

Innovation in Fixtures

Retailers may help alleviate some of the problem of over-crowded shelf space by making use of wall space. According to a 1985 article entitled "Successful Merchandising Hangs on Choice of Fixtures", a shortage of selling space is leading to an increased reliance on the use of fixtures to increase productivity by utilizing wall space. Larger chains are designing their own units or are having an outside firm assist in the design. Furthermore, fixtures can also be used to create a look that sets stores apart from the competition.

Manufacturer-Retailer Cooperation

Dagnoli et al in an article entitled "Marketers Seek Slotting-fee Truce" related efforts by major food marketers to create new programs in hopes of settling the escalating feud with retailers over slotting allowances. These programs include regionalized marketing and retailer-oriented consumer promotions. The theory of the system, called "New Age Marketing", is to create promotions for the retailer that are of such a magnitude it pulls the product through and lowers the level of allowances. The strategies can use any number of techniques but must concentrate on the characteristics of each market. In addition, many companies are working out shelf-space management and DPP for retailers. Although the balance of power is still weighted heavily toward the retailer, these cooperative programs are beginning to effect a more equitable distribution and some of the goodwill is being restored.

In his 1987 article "Supermarket Promotions: Who's Running the Store?", Don Nichols said supermarkets have taken increasing control of the consumer promotion process in an attempt to market their stores. Increasingly, they are demanding that promotions represent more of a joint effort between themselves and the manufacturers. Don Nichols reported Campbell Soup Co. as being especially receptive to sponsoring customized promotions with specific chains and a sales promotion consultant observed that participating in promotions is a way for manufacturer to get some value out of their money, as opposed to slotting allowances which go directly into the chains' tills.

In an article entitled "Marketplace Realities can Place Retailers, Manufacturers at Odds", Anthony J. Long and J. Stephen Owens shed light on the new position of retailers and manufacturers. While both focus on responding to consumer trends, they say product manufacturers are trying to build brand loyalty, but only for their own brands, while retailers are trying to build store loyalty.

Armed with information, retailers are becoming sophisticated at modifying their stores to advance their business goals by meeting real market-driven consumer needs. The retailer is moving rapidly toward a vertical marketing orientation in each of his trading areas. But the manufacturer is still engrossed with national sales volumes, national advertising, and national promotions, claiming it is too inefficient to implement vertical key-account strategies.

Long and Owens view today's manufacturer as one of several raw materials retailers use to build their brand - the store. The right concept or store idea, the right real estate, the right mix of merchandise, and the right communication mix are essential to effectively project a "brand personality". Each time a retailer introduces a new concept it will have a major impact on the type of merchandise that it carries, the number of different categories in the store, the number of listings it will permit in any given category and the number of sizes or flavours it will carry, how the brands will be priced within a store, and how the store concept will be promoted.

Retailers operate on very high dollar sales volumes and very small profit margins. With the high capital, personnel, and marketing costs of building new stores and new concepts, retailers have to work hard to build volume and profit margins by making their real estate more productive. Furthermore, as retailers tend to polarize their merchandise mix between high volume/low margin brands and low volume/high margin brands, there is little use for "me-too" products.

Retailers are interested in a high margin/high volume brand, "perhaps the retailer's own house brand". Therefore, new products must be meaningful to the retailer and consumer alike. Long and Owens say the key to success lies in positive and effective cooperation between retailer and manufacturer to provide a legitimate range of products to consumers, in the most convenient way, and at the lowest possible price, while still earning a reasonable return on investment for both.

Summary

Long and Owens summed it up quite appropriately. Now that retailers have discovered the risks of accepting a new product need not be shouldered by themselves, they will not return to the old situation. The balance of power has shifted toward retailers and it looks like slotting is here to stay. To alleviate the slotting warfare, marketer and retailer must be committed to bringing only well-tested products onto the market and support them with proper advertising and promotion, returning to a "pull" marketing strategy. In addition, marketers must exercise prudent planning in new product introduction, allowing each product sufficient time and budget to grow. Marketers must also keep the crowded shelves in mind when designing packaging, making sure the product stands out in the crowd without hoarding excessive space. Retailers on the other hand must be innovative in store and fixture design, optimizing shelf space as well as wall space. In the long run, only cooperation can give the positive results that both parties are looking for. Government regulations may or may not bring the desirable results for either or both parties, and resorting to alternative channels of distribution is not particularly productive for either party.

CHAPTER III

METHODOLOGY

As stated in the introduction, this paper is not only concerned with the slotting practice in the U.S. but also in Hong Kong. Although there is a wealth of articles on slotting allowance practices in the U.S., little is found on the topic in Hong Kong, or indeed in Asia. Only one article published in AmCham was found on the topic of slotting allowances in Hong Kong. Susan Cunningham reported that "a standard placement fee for a six-inch wide row of a single variety of soup is HK$80,000 for six months", although everything is negotiable and there is no guarantee the product will stay on the shelf if it does not sell. In addition, each chain deducts four percent of its payments for advertising/promotion, five to ten percent for promotion at new branches, up to three percent for delivery fees to the chains' central warehouses, HK$100,000 per year for special promotions involving a demonstration, and two to ten percent rebate if sales exceed projections by around 20 percent[13]. Despite all these charges, agents reportedly complained that there is no guarantee of promotion, and

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[13]Cunningham, Susan. "Why more Foreign Products are Kept Out than Let Into Local Stores", AmCham, (May 1989):11.

marketers are not allowed to specify either the store locations or the exact placement within the stores. The findings of the present study will indirectly serve as a cross-check replicate of Susan Cunningham's report.

The Scope of Study

Realizing the lack of information on the issue and the sensitivity of the topic, the author conducted a study in Hong Kong, personally interviewing both marketers and retailers in a semi-structured interview to explore their respective viewpoints. The areas of interest were:

1. Historical developments

When did slotting allowances first come into existence in Hong Kong; why; whether the rate of new product failure was a major factor; which category or categories are seen as having the tighest space problems.

2. Extent of practice

The number of chains involved in the practice; the amounts involved; the methods of calculation or negotiation; and other related charges involved.

3. Respondents' viewpoint

Whether slotting allowances are "here to stay"; whether it is a big problem for marketers; whether other factors are more important than slotting allowances in product acceptance decisions; whether the balance of power has shifted from marketers to retailers; whether alternative courses of action are available or feasible; and general feelings about the practice.

The Approach

The author initially identified a list of 15 marketers and five retailing chains operating in Hong Kong and telephoned the companies to obtain names of the person in charge of the relevant departments. A letter was then mailed to each company to explain the purpose and nature of the study and to ask for participation. Follow-up telephone calls were made to ensure receipt of the letters and to set up appointments for the interviews. As appointments were confirmed, an outline of the interview is sent by fax to the interviewees before the author's personal visit.

The Response

After repeated attempts at reaching the addressees, eight marketers of national brands and three retail chains agreed to participate in this qualitative study. The sensitive nature of the topic may be a deterrent although it is recognized that most businessmen in Hong Kong are also extremely busy.

Of those who participated, respondents varied in position from managing directors to functional managers and also differed widely in their degrees of openness and helpfulness. Again, given the sensitive nature of the topic, this is quite understandable.

The Interview Guides are shown in the appendix: 1A is the mareketer version, and 1B the retailer version.

CHAPTER IV

FINDINGS OF THE STUDY

In Hong Kong, as recently as the early 1970s, retailers were mostly corner mom-and-pop grocery stores and independent drugstores, and were subject to the policies of suppliers for goods. As chain operation proliferated in the mid-70s, retail chains became increasingly important to suppliers as distribution channels. Depending on the product category of the marketer, retail chains today account for 40 to 60 percent of the business.

The grocery retail chains in Hong Kong include two major chains that comprise over 100 outlets, two "drugstore" chains that are considered variety stores, a major convenience store chain that comprises over 200 outlets, and several smaller grocery chains and convenience store chains. Many Japanese department stores also have supermarkets and they add up to about half a dozen outlets. Nine chains in Hong Kong are involved in slotting allowances to various degrees, and this is just about all chains with over ten outlets.

The U.S. and Hong Kong: A Preliminary Comparison

Before dwelling on the issue of slotting allowances, let us first consider some kinds of data that may be pertinent. In the U.S., however rough, figures are available on the rate of new product introduction, the rate of new product failure, and the return on shelf space. And it is mostly because of the overwhelming rate of new product introduction and the high rate of new product failure that retailers originally resorted to charging slotting allowances.

In Hong Kong, such figures are apparently not available. Chain operators have not systematically tallied the number of new product sales pitches nor the number of new product failures. They can only say that there are more products on the market than they can stock, that they are very prudent in selecting new products, and that failure rate of products on their shelves is not high. Their reason for charging listing allowances is to cover the cost incurred in replacing an existing product with a new product. Supermarkets in Hong Kong are around 1,500 to 5,000 sq. ft., while convenience stores are several hundred to 1,000 sq. ft. Within this area, supermarkets stock around 8,000 different items. As a result, they have reached the point where a product has to be deleted for every new product accepted. This does not apply to all chains, of course, but it is the case for the major supermarkets.

In the U.S., marketers are told how much space (e.g. six-inch facing) is allocated to them for the slotting allowances paid. In Hong Kong, this is not possible. It is mostly up to the store managers to decide on the location and amount of space allocated for the new product. Suppliers are only guaranteed at least one facing, i.e. the product will be made visible. In the U.S., marketers also are told how long the product has to prove itself; in Hong Kong, this is true too, but in case of a real "bomb", there is no guarantee that retailers will keep the product for the full period. In the U.S., a failure fee is being instituted by some retailers and has resulted in a lot of controversy. In Hong Kong, such charges are not yet in place.

The Birth of Listing Allowances

Similiar to the U.S. situation, the origin of slotting allowances in Hong Kong is obscure. Respondents say charges started informally and some date the origin to the mid-1970s, while others date it to the beginning of 1980s. But regardless of when it all bega n, all respondents agree that by early 1980, the practice became formalized by the then prominent chains and is now a major tool by which trade deals with suppliers. In practice, the term "slotting allowance" is not used in Hong Kong. "Listing allowance" is used to cover upfront payment for the cost of entering new product information into the books, rearrangement of shelf space, and placing the product in the warehouse and on store shelves. This listing allowance, then, is the Hong Kong equivalent of the U.S.'s "placement allowance".

What is a New Product?

All respondents attest to the fact that both innovatively new products and line extensions are considered new products because chains define new products as any product that requires a "facing": it cannot be just stocked behind another product. Yet, line extensions of a line that is doing very well may be negotiated into the stores more easily than a totally new product. A line extension of a product that is not doing well may have a tougher time at negotiation.

Where is the Competition for Space?

None of the respondents seem to know in which product category competition for shelf space is keenest. This is probably because certain fast moving product categories are alloted more space while others are alloted less. Beverages and shampoos seem tight because of the sheer array of choices available. Packaged rice, disposable diapers, and sanitary napkins seem tight also because of their bulkiness.

Slotting Allowance Practices in Hong Kong

In previous discussions, slotting allowances were said to cover upfront payment, cash discounts, free case goods as well as placement allowances for new product introduction. Under this definition, even though the term "slotting allowances" is not used in Hong Kong, it is practiced. It is interesting to note that not all chain operators agree that they are actually charging slotting allowances even though suppliers have named them as such. The confusion probably arises from different understanding as to what constitutes slotting allowances. Chain operators limit slotting allowances to listing allowances, and when they do not explicitly charge listing allowances, they feel that they are not involved in the issue. But discounts and in-store promotional expenses in relation to new product introduction is the standard and marketers feel that they need to budget for such expenses, no matter what the chains call them. Listing allowances and in-store promotions are always paid as upfront cash and the amount for each feature is revised annually. Copies of ten new product application forms are included in Appendix 2.

Listing Allowances

In Hong Kong, slotting allowances are more closely tied in with promotion because, originally, chain operators asked marketers to participate in store promotion by contributing a promotional fee. When marketers willingly contributed and chain operators subsequently refined accounting procedures with separate accounts for different promotional features, listing allowance became a separate account in some chains but are termed differently. Listing allowance, as mentioned earlier, is used to cover the cost of listing a new product. But in addition, some chain operators say it also covers cost of promoting the brand through shelf talkers, posters, and other display promotions. Thus listing allowance is variously termed "promotional fund", "promotional support", "display allowance", "introductory support", "warehouse allowance", and "new line introductory fee" by different chains. With certain chains, it is possible to get by with either listing allowance or in-store promotion, while other chains require both.

Both marketers and chain operators seem more comfortable with this format of tying listing allowance into promotion because the charges are not exactly pocketed by the chains but are used partly to build the brands. Still, most marketers think that a good portion of the charges are pocketed as profits. Perhaps we can say that these allowances turn out to be profit centers, but they are not exactly formal ones as seen in a company's profit-and-loss statement. Chain operators on the other hand are not ready to admit the possibility of making profit from such allowances even though they agree that such charges serve to minimize the risk of accepting a new product.

In-Store Promotions

In-store promotion constitutes the bulk of charges for putting a new product on the store shelves for many marketers. Most chains require marketers to commit to a certain amount of specific, tangible in-store promotion "features" which takes several forms. Marketers may be asked to contribute to TV and newspaper advertising fund, to pay for advertising on leaflets printed for distribution at checkouts, to pay for advertising on carrier bags, or to pay for advertisement on trolleys. Special displays such as checkout stand displays are charged extra. In-store promotion may also take the form of sampling or demonstration with associated charges. Although such promotions are not restricted to new products, they are particularly important to new products because this is one of the ways retailers judge how supportive of the new product launch the marketer is. A major marketer says that it is customary for a suppler to "buy" ten "features" for a major product launch.

In case of central distribution by retail chains (i.e. suppliers deliver goods to the central warehouse and chains deliver from warehouse to individual outlets), chain operators charge a distribution allowance to cover the cost incurred. Again, many suppliers prefer to distribute directly to the outlets and not to the warehouse in order to minimize out-of-stock situations. However, that is not a suppliers' choice.

Discounts

All chains expect discounts because of their sheer size and buying power. This is evident in all new product application forms as exhibited in Appendix 2 and Appendix 3. In other words, they always buy on deal. In addition to this basic discount to retail chains, most chains also require introductory discounts and or bonus goods during the introductory period. During promotional periods, retailers also require extra discounts to ensure either wider initial profit margins or to maintain profit margins during price promotions.

Summary of New Product Introduction Charges

The various discounts and charges found on the set of new product introduction application forms are listed in Appendix 3 in descending order of frequency. It should be noted that the application forms vary in degrees of specificity. Some chains list all items as part of new product introduction, separating trolley advertising from display advertising etc. Others may include them all under promotional support. For example, the "New Store Opening Discount/Support" is only found on one of the forms when most of the major chains now ask for it. This is a form of "support" which stems from the custom of sending flower baskets to new stores as compliments. But as the chains expand and open a large number of stores in a year, the retailers thought it would be more practical to put such funds toward the store than to waste it on perishable flowers. Thus, new store support/discount became a separate account and is expected of marketers. By the same token, it is suspected that even though some chains do not list items such as incentive rebates (that may be a part of trade terms) on the new product application form, such practices are still instituted.

How Much is Involved?

A major convenience store charges HK$480 per product per store. The chain operator usually decide on how many and which outlets to stock the new product. Another major grocery chain charges HK$45,000 per product (single variety, single size). A well known marketer of national brands says that the current trading terms account for approximately 5 to 10 percent of total year-one marketing plan budget. In general, the cost for putting a new product on the shelf of a major chain is upwards of HK$100,000 even though the cost for smaller chains may be as low as HK$12,500.

Is It Negotiable?

The chains say that the stated amount is made available as a guideline to assist marketers in budgeting and that there is much room for negotiation. Marketers vary in views, probably because of different experiences encountered. Some say that it is 95 percent not negotiable. Others says that listing one product at a time is not negotiable, but listing several products within the same product catogory (i.e. several products that are overseen by the same buyer) is usually negotiable. Some marketers have not heard of chain operators waiving the allowances, although a few say that it has happened before. A chain operator says that even though they have waived charges before, now that they are more established and have most, if not all, of the national brands in stock, the chances of waiving charges are slimmer.

Criteria for New Product Acceptance

Having said that there are more products on the market than can be stocked by retailers, everybody in the grocery business agrees that new product is important to continued profitability and viability of a company. What, then, are the keys to being accepted by retail chains? Are slotting allowances as important as they seem?

According to a distributor of national brands, innovativeness and product potential are of utmost importance. A product which is totally different from what is available on the market and has lots of research data to demonstrate its market potential will be valued. The fewer brands in a given product category, the easier it is to get in. The price point is also important. It must offer a healthy profit margin to retailers. Strong advertising and promotional support by the marketer is necessary to assure retailers that consumer will be made fully aware of the product and will be enticed into trying the product. Another marketer added that bulky products are difficult to get in, especially if several brands are already available. A third marketer says past success helps. A reputable company with excellent track records has less trouble getting a new product into the stores. Good personal relationship and established rapport with the buyers are also important. This is particularly helpful when dealing with the Chinese.

According to a major chain, the most important factor is whether the product is suitable for distribution in its outlets, i.e. product that is suitable for a supermarket may not necessarily be suitable for a convenience store or a variety store. Next, market potential is considered. The listing fee and promotion fund are secondary to the first two factors. Another chain added risk factor and space requirement of the new product to the list. The higher the perceived risk, the more the marketer is expected to pay upfront. The bulkier the product, the more reluctant is the store to accept.

Alternative Channels of Distribution

Besides the typical chains, many Japanese Department Stores have supermarkets, and, as alluded to earlier, there are also many mom-and-pop grocery stores, independent drugstores, and newspaper/confectionary stands in Hong Kong. All these carry certain types of packaged grocery products.

Japanese Supermarkets

Supermarkets in Japanese Department Stores offer a variety of specialties and better ambience than the usual supermarket chains and their terms are very good (Exhibit 1 in Appendix 2 is the new product application form of a Japanese supermarket). According to some respondents, turnover is high in Japanese supermarkets and that on a store basis, their business is better than many traditional supermarkets. They capture a sizeable business in their locality but, because they have limited outlets overall, their total strength is still limited. However, because a lot of people pass through these Japanese supermarkets, products get a lot of exposure.

Some marketers (especially those with limited budget) deliberately sell to Japanese supermarkets first, to prove the popularity of the product, before approaching the traditional chains. With a proven record, these products can then get into the other chains more easily.

The Independents

Cigarettes, confectionaries, and soft drinks can be reasonably distributed through corner groceries and newspaper/confectionary stands. OTC patent medicines, infant milk power, and other health and beauty aids may rely more on independent drugstores than chains. In other words, whether chains have power over marketers really depends on the product category.

General Sentiments of the Industry

As mentioned earlier, all marketers involved in this study understand that costs are incurred by retailers in accepting and deleting products. However, the majority still feel that slotting allowances have more than covered costs and have actually contributed to retailers' profit. Even so, all respondents agree that slotting allowances are here to stay and that as retailers continue to expand and improve on their information systems, charges may even increase and negotiations will become more sophisticated. They also agree that power has shifted from the hands of marketers to the hands of buyers because they constitute a large proportion of the distribution channels. Yet this is not to say that marketers have lost all powers of negotiation. Good quality products with high demand are still sought by retailers and makers of such products have a balance of power. Many marketers are also attempting to strengthen the marketer-buyer relationship by offering marketing expertise. But even a good relationship is not going to make slotting allowances disappear. At best, it only makes negotiation smoother. However, certain product categories such as cigarettes and OTC patent medicines can be well distributed in Hong Kong using non-chain outlets. Thus makers of these products are not necessarily subject to the demands of chain operators to the same extent as other grocery marketers.

Other Issues

Susan Cunningham's article (mentioned in Chapter III) brought up the issue of cooperation, or lack of it, in promotions. Her article quoted agents as saying marketers have "no say about where [the product is] placed in the store or even in which branches it will appear", and that "there's no guarantee of promotion". Another issue which is related to price promotion by retail chains is that chains may be in a position to sell products at a price lower than the cost price of small, independent retailers. This upsets both the "small guys", the wholesalers, and the marketers. These issues are explored below.

Choice of Locations

All respondents attest to the fact that chain operators make the final decision on the exact location of the product within the store. This is because of the need to adjust the planograms. Depending on the product category and the size of the new product, there are varying degree of shelf rearrangements and merchandising to be made before the new product can be put in place. And because every store is different in size and arrangements of goods, the same product is usually not placed in the same spot in all stores. Having said that, many respondents say that they may influence retailers on the positioning of their products within the store as long as they have a strong rationale for this, i.e., try to convince retailers that it is to their advantage to place it in a better position such as eye level. So it is not totally correct to say that marketers have absolutely no say in the matter.

All respondents also attest to the fact that chain operators make the final decision on which outlet will carry the new product. This is usually a function of space availability and product type: e.g., product which only appeals to a certain ethnic group will only be stocked in stores frequented by that ethnic group. However, there is room for negotiation and marketers may voice their opinion on the issue as well. So, once again, marketers do have some say, although the final decision is not theirs.

Types of Promotions

As for promotions, there are different types of promotions. Promotions that marketers specifically "buy", such as special displays, can be followed-up and are usually done as agreed. Putting the product on special and offering discounted price usually involves higher demand for the product and thus bigger supply. The timing for these type of promotions are usually discussed at the beginning of each fiscal year and also prior to the promotional period because supply must be sufficient to meet demand. There is definitely coordination between marketer and retailer here.

On the other hand, there are cases when retailers wish to get rid of excessive stock by putting the product on sale. Such "promotions" may be carried out without the knowledge of the marketer. And as long as the marketer need not prepare extra stock or slash prices, they do not necessarily wish to know. Another form of promotion is linked to the listing allowance. The content of these promotions are not always clearly spelled out and there is little for the marketer to follow-up on. The chain usually decides on the method of display. This is the area where there is "no guarantee of promotion".

Undersells

As described earlier, large chains have tremendous buying power and receive hefty discounts through basic trade discounts, bonus goods, special discounts during introductory period, and other trade terms. On the other hand, mom-and-pops usually only receive the standard trade terms which are much less attractive. As a result, there have been occasions when chains put a product on sale at a lower price than can be bought by mom-and-pops, causing the latter to buy from the chain at the reduced retail price. This is a problem for the marketer because he is now made to sell a larger quantity of products at the much reduced price through the chains and sell less to the wholesalers or the mom-and-pops directly. This also breaches the trust between the mom-and-pops, the wholesaler, and the marketer. In the past, there had been times when marketers were forced to put the product on sale across the board for all wholesalers and retailers. Fortunately this happens only to varying degrees and affects certain marketers more than others. Yet for those who are affected, it is a real problem.

CHAPTER V

SUMMARY AND IMPLICATIONS

In the retail industry, the U.S. is much more advanced in terms of "technology"; retailers in Hong Kong have not started capturing data through point-of-sale scanning. At present, they say that they have pretty good ideas of what is going into the stores but not much about how it is going out, e.g., they have not been able to differentiate pilfering from sales. Nor can they tell profitability by shelf space. But they are catching up. All products will be bar-coded by 1991 and it is expected that some chains will be scanning by then. As retailers gain access to more product movement information and their operations become increasingly sophisticated, they may become even more demanding of marketers.

Slotting allowance is one of the many barriers to new product introduction that came about towards the end of the 70s and the beginning of the 80s. Its origin is obscure in the U.S. as well as in Hong Kong because it started as a form of trade allowance. As product introduction increased at a rate faster than increases in store space, slotting allowances became a tool for retailers to screen out products.

Marketers in both localities seem to understand the cost involved in accepting and deleting products in retail chains, but still suspect and fight the idea of retailers charging more than it actually costs. This issue is, however, more contentious in the U.S. because it is viewed as a means for retailers to pocket an extra sum; a transfer of funds from marketers' pockets to retailers' pockets. In Hong Kong, mostly because of the link with displays and promotion, marketers have come to accept the practice, albeit reluctantly.

The bottom line is that marketers need to come to grips with the shift of power into the hands of retailers and make the best of the situation. It is obvious that retailers need marketers (especially the makers of popular items), and that marketers need major chains for maximum distribution. The two parties must form a partnership which seeks to meet the needs of the market and, in return, reap profits.

The pressure is now on the manufacturers to innovate and put out genuinely novel and meaningful products which truly meet consumers' needs, not the "me-too" variety. The pressure is also on them to come out with more streamlined packaging that does not take up more space than is necessary. They also need to put more effort into planning line extensions with respect to timing and variety.

Retailers can help manufacturers by making use of their point-of-sale information capture and giving manufacturers more detailed feedback such as who buys what, and why, at the store level. Much research by marketers in the U.S. is done on this issue, of course, by buying "scanning data" and other means.

Cooperation is the key, and having well-orchestrated promotional campaigns which involve both marketers and retailers may be the avenue to a win-win situation for both parties. Perhaps marketers and retailers of the 90s need to have broader perspectives and to have the other party in mind in both their planning and execution stages.

The only worrisome factor is that small marketers will no longer have equitable access to distribution channels. Those who do not have the budget for slotting allowances may have a harder time proving themselves through fragmented channels, because the chains will consider taking only proven new products without slotting allowances. This may dampen the entrepreneurial spirit. With the middleman charging extra, the consumers of course are expected to pay more. But consumers never had any say in how much should be charged. Consumer sovereignty lies in his discretion in making purchasing decisions, not pricing decisions per se.

APPENDIX 1A

INTERVIEW GUIDE FOR MARKETERS

1. Can you tell me the history of slotting/placement fees in Hong Kong? Why, when, and how did they come into existence? Do you know the rate of new product introduction in Hong Kong? In which product category is shelf space tightest?

2. Are you aware of any store demanding the fee? Which one or ones?

3. Can you tell me how the slotting/placement fee is paid: cash or non-cash allowances? How is it calculated? Is it negotiable or standardized? What are the bases for negotiation? Does it fluctuate within a year or go up year after year? Would you prefer a standardized fee? If so, who is to decide on the standard?

4. Can you tell me what other charges are involved in placing your product on the shelves? e.g. advertising/ promotion charges, delivery charges, failure fee, rebates Do you feel you get your money's worth for paying such charges?

5. Do you happen to know the failure rate of new product introduction in Hong Kong?

6. Suppose you wish to have special promotions in the store, how are they arranged? Can you decide on the time, place, and format?

7. Can you see the Japanese supermarkets (Daimaru, Tokyu, Yaohan, Uny, Jusco) and such specialty local chains as Dah Chong Hong being viable alternatives for distribution in the future?

8. What are your feelings about the slotting/placement fee? Is it a serious problem? Has it altered the relationship between the marketer and the retailer in any way?

9. Is there any aspect of slotting allowances that we have not discussed which you would like to mention?

APPENDIX 1B

INTERVIEW GUIDE FOR RETAILERS

1. Can you tell me the history of slotting/placement fees in Hong Kong? Why, when, and how did they come into existence? Do you happen to know the rate of new product introduction and the rate of new product failure in Hong Kong? In which product category is shelf space tightest?

2. Can you tell me which stores or chains are charging slotting/placement fees? Can you tell me what the definition of a new product is? Are line extensions, new packaging, new flavours, for example considered new products?

3. Can you tell me how the slotting/placement fee is paid, cash or non-cash allowances? How is it calculated? Is it negotiable or standardized? Does it fluctuate within a year? Does it go up year after year? Would you prefer a standardized fee? If so, who is to decide on the standard?

4. Can you tell me what other charges are involved in placing a product on your shelves and the rationale for each fee? e.g. advertising/ promotion charges, special display charges, delivery charges, failure fee, rebates

5. Is the slotting/placement fee a cost center or a profit center? How do you determine whether a product is profitable or not? How long does a product have to prove itself? Is there a failure charge? What is a failure?

6. Can you tell me what governs which product is being promoted at a given event or point in time? Is there co-ordination and co-operation between retailers and marketers in a given promotion?

7. Will you accept a product that does not pay the charge but sells like hotcakes in other outlets? In other words, what governs whether a product is accepted or not?

8. What are your feelings about the slotting allowances? Has it altered the relationship between the marketer and the retailer in any way? Is slotting allowances here to stay?

9. Is there any aspect of slotting allowances that we have not discussed which you would like to mention?

APPENDIX 2

NEW PRODUCT APPLICATION FORMS

EXHIBIT 1

SUPPLIER NAME :					CODE :					
NO.	ART. CODE	PRODUCT DESCRIPTION	PACK/ SIZE	CASE COST	DISC %	NET COST	SUGG. RETAIL	G.P.	INITIAL ORDER	REMARKS

ADVERTISING SUPPORT :		
TV / RADIO	PERIOD	SPEND ___
OTHERS		

FOR OFFICE USE ONLY :		
HANDLE BY :	APPROVAL BY :	REVIEW DATE :

NEW LINE PRESENTATION FORM

新货品介绍资料

DATE:
日期:

Name of Supplier Address and phone No. 商号名称、地址、电话		
Advertising Details : 广告细则	Newspaper/Magazine/TV/Radio/Others 报章/杂志/电视/收音机/其他	Timing : 广告期间
Product and Brand 牌子及货品名称		
Pack & Size 每箱包装及每件重量		
Regular Wholesale Price 普通批发价		
[illegible] Wholesale Price [illegible]、批发价		
Warehouse Allowance 入仓折扣		
Incentive Rebate 年终购货退佣		
New Line Interoductory Fee 新货品介绍费用		
Introductory Offer Valid for 3 Months 新货品介绍特价三個月		

货　办: ☐
说明书: ☐
销售信件: ☐

新货品: 接受/拒绝
理　由: ____________________
批　准: __________ 日期: __________
订购数量: ____________________

供应商: __________ 货品编号: __________ 会计部副本: ☐

EXHIBIT 3

商品推薦表格

日期：

表格編號：

(A)部份：(供應商資料)

名稱：

地址：

電話：

聯系人：Mr/Mrs/Ms.

行業性質：入口商☐ 製造商☐

分銷商☐ 批發商☐

帳戶編號：

(B)部份：(產品資料)

名稱：(中文)

(英文)

規格及包裝：

產地來源：

價格：

單扣：

年終折扣：

放帳期限：

可供貨量：

推廣特惠條件：

進倉回扣：

市面售價：

(C)部份：(產品推廣)

宣傳：電視☐ 報紙☐ 手挽膠袋☐ 印刷手招☐ 攤位陳列☐ 其他☐

廣告費用贊助：(HK$)

提供樣品：實物☐ 圖片☐(需要退回／不需要退回)

(D)部份：(產品銷售估計文字介紹)

供應商簽章：__________

- -

回 條

致：____________公司

日期：

採購有限公司採購部于____月____日收到商品推薦表格____份

編號：____________。本部門將於十四個工作日內以書面答覆對產品接受程度的意見。

此致

NEW PRODUCT EVALUATION FORM

Form No. ________________ Date ____________________

Supplier :

Product :

Pack & Size :

Wholesale Price :

Trade Discount :

Introductory Discount : Duration :

Incentive Rebate Entitlement :

New W/P during Introductory Period :

New W/P after Introductory Period :

Retail Price of Outside Trade : Major Chains Independent Supermarket

Recommended R/P [illegible] :

G/P during Introductory Period :

G/P after Introductory Period :

Advertising & Promotion Support :

i) In-Store Promotion :

Type & Frequency -

Promotion Discount -

ii) Plastic Bag Advertising :

iii) Other Recommendation :

Prepared by : Approved by :

NEW PRODUCTS APPLICATION FORM

DATE:

NAME OF SUPPLIER/ REPRESENTATIVE			
ADDR./PHONE NUMBER			
PRODUCT & BRAND			
ADVERTISING SUPPORT/DATE (NEWSPAPER/MAGAZINE/TV/ OTHERS)			
REGULAR WHOLESALE PRICE/ REGULAR RETAIL PRICE			
[illegible] WHOLESALE PRICE			
INTRODUCTORY OFFER VALID FOR 6MTHS			
WAREHOUSE ALLOWANCE			
INCENTIVE REBATE			
NUMBER OF BI-WEEKLY PROMOTIONS /DATES			
CARRIERS BAGS	LARGE	30,000pcs	$10,500.-
	SIZE:14.25"x17.5"+2"	50,000pcs	$15,000.-
		100,000pcs	$28,500.-
	MEDIUM	30,000pcs	$ 6,500.-
	SIZE:10.75"x15"+2"	50,000pcs	$ 9,800.-
		100,000pcs	$18,600.-
SEASONAL PROMOTION SUPPORT			

AUTHORIZED BY

NEW LINE PRESENTATION FORM

新產品介紹資料

DATE :
日 期 :

NAME OF SUPPLIER 商號名稱	
ADDRESS & PHONE NUMBER 地址及電話號碼	
PRODUCT AND BRAND 牌子及貨品名稱	
PACK & SIZE 每箱包裝及每件重量	
REGULAR WHOLESALE PRICE 普通批發價	
[illegible] PRICE 給予[illegible]批發價	
INTRODUCTORY OFFER VALID FOR 6 MONTHS 新貨品介紹特價六個月	
PROMOTIONAL SUPPORT 陳列推銷費用	
INGREDIENTS IN DESCENDING ORDER OF WEIGHT OR VOLUME 成份（根據重量或容量由多至少排列）	

SHELF LIFE 有効保存期	DAYS 日	EXPIRY DATE CODED (DAY/MONTH/YEAR) 註明出售期限（日／月／年）	☐ YES ☐ NO

Upon acceptance of a New Line there will be a promotion support of a minimum HK$ 45,000.00
新貨品如被接納，請最少以港幣 45,000.00 作爲陳列推銷之用。

We hereby confirm that this product conforms with all requirements of the New Food and Drugs (Composition and Labelling) (Amendment) Regulations 1985.
茲証實此貨品符合1985年新食品及藥品成份及標簽條例之全部要求。

SIGNATURE
簽 署

NEW PRODUCTS APPLICATION FORM

<table>
<tr><td colspan="2">VENDOR 供應商</td><td colspan="5">REPRESENTATIVE 代表</td><td colspan="3">TEL. NO. 電話</td></tr>
<tr><td colspan="10">NEW PRODUCTS 新貨品</td></tr>
<tr><td colspan="2">Description
品 種</td><td>Size/ Pack
包裝</td><td>Case Cost
每箱價</td><td>Unit Cost
折扣</td><td>Dis- count
單價</td><td>Recom- mended R.P.
建議售價</td><td>G.P.%
利潤百分率</td><td colspan="2">R.P. of other Supermarkets
其他市場售價</td></tr>
<tr><td>1</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>2</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>3</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>4</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>5</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>6</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>7</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>8</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

<table>
<tr><td colspan="4">INTRODUCTORY OFFER 介紹期特惠</td></tr>
<tr><td colspan="2">DISCOUNT /BONUS GOODS 特惠折扣/贈貨 :</td><td colspan="2">PERIOD 期間 :</td></tr>
<tr><td rowspan="2">INTRODUCTORY SUPPORT 介紹特惠金</td><td>TYPE A ( )
甲類</td><td>$ 60,000.00</td><td rowspan="2">$</td></tr>
<tr><td>TYPE B ( )
乙類</td><td>$ 30,000.00</td></tr>
</table>

<table>
<tr><td colspan="5">PROMOTIONAL ACTIVITY 推廣細則</td></tr>
<tr><td rowspan="2">CARRIER BAGS ADVERTISING 手挽袋廣告</td><td>TYPE A ( )
甲類</td><td>$25,000.00</td><td>75,000 pcs. /個</td><td rowspan="2">$</td></tr>
<tr><td>TYPE B ( )
乙類</td><td>$50,000.00</td><td>100,000 pcs. /個</td></tr>
<tr><td rowspan="3">PROMOTIONAL FUND 陳列費用

THE AMOUNT TO BE CHARGED WILL DEPEND UPON THE ACTUAL NUMBER OF STORES AT THE TIME OF PROMOTION.
陳列費用依照陳列期間[illegible]的數量而定。</td><td>TYPE
類別</td><td colspan="2">AMOUNT PER STORE PER 2 WEEKS
每兩星期每間總費用</td><td>NO. OF PROMOTIONS
陳列次數</td></tr>
<tr><td>A ( )</td><td colspan="2">$450</td><td></td></tr>
<tr><td>B ( )</td><td colspan="2">$225</td><td></td></tr>
</table>

ADVERTISING SUPPORT 推廣細則

T.V. 電視 ☐ Newspaper 報章 ☐ Magazine 雜誌 ☐ Radio 收音機 ☐ Others 其他 ☐

推廣費用 Advertising Budget $ ____________ 推廣時間 由 Advertising Period from ____________ 至 to ____________

REMARK : Please state any other relevant information in support of this application.
註 明：請說明其他有關資料。

SIGNED BY:

____
Signature (Please stamp your Co. Chop)
簽名(請用公司印章)
Date 日期 : ____________________

New Products Application Form

Application Date ______

Supplier 商號	Tel No. 電話	Representative 代表

NEW PRODUCTS 新貨品

	Description 品種	Size/Pack 包裝	Case Cost 每箱價	Dis-count 折扣	Unit Cost 單價	Recommend R.P. 建議售價	G.P. % 利潤百分率	Competitors R.P. 其他市場售價
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

INTRODUCTORY OFFER 介紹期特惠折扣

Discount 折扣 / Bonus Goods 特惠贈貨 Period 期間

ADVERTISING DETAILS 廣告細則 * Newspaper/Mazagine/ TV/ Radio /Others
報章 雜誌 電視 收音機 其他

* please delete as appropriate 請劃去不適用項

Timing: 廣告期間 Budget: 預算

TRADING TERMS 交易協議

Credit Terms: 付款期限 i.e. 例如

Trading Discount (off invoice/by credit note) 購貨折扣

Incentive Rebate: 年終退佣

PROMOTIONAL ACTIVITIES 業務推廣 No. of promotions: 陳列次數 ______

New Store Opening Support 新市場特惠金 HK$ ______ New Store Opening Discount: 新市場折扣

Display Allowance 陳列費 HK$ ______ Promotion Discount 陳列折扣 ______

Carrier Bags Advertising: 手挽袋廣告 HK$ ______

FOR OFFICE USE ONLY

Line										
Accepted	1	2	3	4	5	6	7	8	9	10
Rejected	1	2	3	4	5	6	7	8	9	10

Product Review

Date: ______

______
Merchandising Manager

______
Date

EXHIBIT 9

Application Date ______

Supplier 商號	Representative 代表	Tel.No 電話

New Products 新貨品

Description 品種	Size/Pack 包裝	Case Cost 每箱價	Discount 折扣	Unit Cost 單價	Recommended R.P. 建議售價	G.P % 利潤百分比	R.P. of other Supermarkets 其他市場售價	

Introductory Offer 介紹期特惠折扣

Discount 折扣/Bonus Goods 特惠贈貨:	Period 期間:
Advertising Details: *Newspaper/Magazine/TV/Radio/Others 廣告細則: 報章/雜誌/電視/收音機/其他	*Please delete as appropriate 請刪去不適用項
Timing 廣告期間:	Budget 預算:

Promotional Activity 推廣細則

Carrier Bags Advertising 手挽袋廣告	Large 大	$32,000.00	100,000 pcs 個
	Medium 中	$25,500.00	100,000 pcs 個
(min. run 最低數量 -100,000 pcs)	Size		for pcs 個

Check-out Stand Advertising.

Top shelf	$175/stand/month
2nd	$150/stand/month
3rd	$125/stand/month
4th	$100/stand/month

Min period 3 months.

Trolley Advertising ($__ space 每個位/month 每月計) (min. booking 最低數量-500 spaces 位/month 月)	$	for spaces 位 months 月

No. of Promotions 陳列次數	Type A( ) $630 fortnight/store (include press ad. charge) 每兩週每分店計	Type B( ) $350 /fortnight/store (with press ad. $400 fortnight/store) 每兩週每分店計	Type C( ) $240 fortnight/store 每兩週每分店計

Promotional Fund 陳列費用	$
Tasting/Demonstration 品嘗示範 Groceries 雜貨 Wines & Spirits 酒類 $440/week/store 每週每分店計	$
Total 總額	$

NEW PRODUCTS APPLICATION FORM

Suppier: | Representative: | Tel. Numbers: | Application Date: ____

EXISTING/NEW ACCOUNT (Delete as applicable) | TRADING TERMS (NORMAL) | NEW ACCOUNT | NEW ACCOUNT EFFECTIVE DATE:

NEW PRODUCTS:

PRODUCT CODES	No.	DESCRIPTION/SUPPLIER'S REF. NOS.	SIZE/PACK	CASE COST	DISC.	UNIT COST	RECC. R. PRICE	G. P. %	RETAIL PRICE COMPARISON	INTRODUCTORY OFFERS:- DISCOUNTS/BONUS GOODS	PERIOD
	1										
	2										
	3										
	4										
	5										
	6										
	7										
	8										
	9										
	10										

ADVERTISING SUPPORT: (Delete as applicable) NEWSPAPER/MAGAZINE/TV/RADIO/OTHERS

PROMOTIONAL ACTIVITY: | TIMING | BUDGET

NO. OF PROMOTIONS | TYPE "A" COST – | TYPE "B" COST – | TYPE "C" COST –

CARRIER BAGS ADVERTISING | PROMOTION DATES:

* Please Indicate Dates Carrier Bags Taken up:

LARGE SIZE 13¾" x 17"	$8,500.00	50,000 pcs	Order Date:
	$15,000.00	100,000 pcs	
MEDIUM SIZE 8½" + 3" x 12"	$4,200.00	50,000 pcs	
	$8,000.00	100,000 pcs	

SAMPLING/DEMONSTRATION COST – | Numbers | Period

Result | Lines Accepted | Permanent

Prepared by: ____

Authorized by ____

APPENDIX 3

DISCOUNTS AND CHARGES LISTED ON NEW PRODUCT APPLICATION FORMS

	NO. OF CHAINS INVOLVED
TRADE DISCOUNT	10
INTRODUCTORY DISCOUNT	8
CARRIER BAGS ADVERTISING	7
INTRODUCTORY BONUS GOODS	5
PRICE PROMOTION	5
PROMOTIONAL FUND/DISCOUNT	5
INCENTIVE REBATE	5
DISPLAY ALLOWANCE	3
SAMPLING/DEMONSTRATION	3
WAREHOUSE DISCOUNT/ALLOWANCE	3
INTRODUCTORY SUPPORT	1
CHECK-OUT STAND ADVERTISING	1
TROLLEY ADVERTISING	1
LEAFLET ADVERTISING	1
NEW STORE OPENING SUPPORT	1
NEW STORE OPENING DISCOUNT	1
NEW LINE INTRODUCTORY FEE	1
SEASONAL PROMOTION SUPPORT	1

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